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Interco
INCORPORATED

1968 ANNUAL REPORT

FOOTWEAR

DEPARTMENT STORES

APPAREL

ANNUAL MEETING OF STOCKHOLDERS
will be held at 10 a.m. on March 10, 1969
at the Company's General Offices,
1509 Washington Avenue, St. Louis, Missouri

57th ANNUAL REPORT

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INTERCO INCORPORATED

HIGHLIGHTS OF THE YEAR
INTERCO INCORPORATED

FISCAL YEARS ENDED NOVEMBER 30,	1968	1967	CHANGE
Net Sales	$669,456,035	$617,760,006	+ 8.4%
Net Income	25,087,844	20,551,418	+22.1%
Less Dividend Requirements on Preferred Stock	2,661,000	2,683,000	
Net Income Available for Common Stock	22,426,844	17,868,418	+25.5%
Working Capital	204,952,873	192,912,882	+ 6.2%
Net Income Per Share of Common Stock	3.12	2.51	+24.3%
Pro Forma Net Income Per Common Share—assuming full conversion of preferred stock and exercise of stock options	2.63	2.17	+21.2%
Dividends Per Share of Common Stock	$0.90	$0.80	+12.5%
Average Shares of Common Stock Outstanding	7,180,071	7,110,234	
Number of Stockholders	15,100	14,700	
Number of Employees	38,200	37,600	

To Our Stockholders:

Sales and earnings for 1968 established new record highs and an important acquisition further broadened and strengthened the earnings base of the company.

For the fifth year in succession sales and earnings were higher than those of the prior year with increases being shown in each of the company's three major operating groups.

Your management's goal continues to be a year-to-year improvement in the return on stockholders' equity. The rate of return has been increased each year over the past five years to 13.9% in 1968 from a low of 4.9%.

An important factor in the company's steady improvement is the aggressive program we have underway to expand our internal operations. This is a subject to which prime emphasis is directed in the regular monthly meetings of the Operating Board.

All major operating groups of the company—Footwear—Department Stores—Apparel—accelerated their internal expansion and modernization programs during the year, and a number of new manufacturing plants, warehouses and retail stores were added. This involved capital expenditures for the year amounting to $15½ million, surpassing any previous year. For the past two years capital expenditures have totaled $26 million reflecting the emphasis which the company is placing on internal expansion.

At the same time, we are continuing to look into opportunities to profitably expand our sales and earnings through acquisition, adhering to the same basic guidelines we have followed since beginning our diversification program five years ago.

The acquisition of Campus Sweater & Sportswear Company through an exchange of stock on April 12, 1968 was another forward step in our diversification program. Campus, with annual volume in excess of $85 million, brings to five the number of major acquisitions which have been made since the company began to diversify its operations in 1964. We are confident that this nationally known company, which provides INTERCO with a strong position in a new market together with a very capable management team, will contribute substantially to the future growth of your company.

The quarterly dividend rate on common stock was raised effective with the January 5, 1969 payment from $0.22½ to $0.25 a share. This is the fourth successive year in which the rate has been increased.

Your management is continuing the practice of retaining in the business the major part of earnings as it feels it to be in the best interests of the company and its stockholders. Retained earnings have provided an important part of the capital that has been used to expand our operations and in turn improve our earnings.

In the following pages you will find a review of the year and comments on each of the company's operating divisions highlighting significant developments in their activities.

The records set in the year just closed were made possible by the dedicated efforts of our employees, the loyalty of our customers and investment of our stockholders. We extend to them our sincere thanks for their contribution to the progress of INTERCO INCORPORATED.

Looking to the new year, we will make the most of our opportunities, and we are confident that 1969 will be another good year for our company.

FOR THE BOARD OF DIRECTORS

M. R. Chambers

January 9, 1969 Chairman of the Board and President

The Year in Review/*Financial*

SALES AND INCOME

Net sales and income for 1968 were the highest in the company's history.

Net sales of $669,456,035 exceeded the prior year's record of $617,760,006 by $51,696,029 or 8.4%.

In the following is shown the 1968 sales volume by the three major operating groups compared with 1967 distribution as originally reported:

	1968		1967	
	Sales	%	Sales	%
Footwear	$366,117,000	55	$340,940,000	64
Department Stores	172,948,000	26	158,826,000	29
Apparel	130,391,000	19	36,421,000	7
Total	$669,456,000	100	$536,187,000	100

Net income of $25,087,844 for the year was $4,536,426 higher than the record $20,551,418 earned last year. Net income available for common stock was $22,426,844 compared with $17,868,418 in 1967—an increase of $4,558,426.

Earnings per common share of $3.12 were $0.61 greater than the $2.51 earned in 1967—an increase of 24.3%. Earnings per share in 1968 were reduced by $1,657,000 or $0.23 a common share by the Federal income tax surcharge which became effective January 1. The 7% Investment Tax Credit added $0.06 to income per share in 1968 compared with $0.05 per share in 1967.

Both years include the accounts of Campus Sweater & Sportswear Company on a pooling of interests basis.

The earnings of Campus were included after providing for dividends that would have been paid on the preferred stock issued in the transaction, had the stock been outstanding in both years.

Assuming full conversion of the outstanding preferred stock and exercise of stock options and eliminating the preferred dividend requirements, pro forma earnings per common share would be $2.63 for 1968 compared with $2.17 a year ago. This is an increase of $0.46 a share or 21.2%.

A breakdown of the 1968 sales dollar is shown below:

Merchandise, materials and expenses	$410,964,891	61.4%
Employees' pay and benefits	200,990,372	30.0
Taxes (excluding Social Security)	25,405,261	3.8
Depreciation	7,007,667	1.0
Dividends paid	8,554,074	1.3
Remainder used in business	16,533,770	2.5
	$669,456,035	100.0%

FINANCIAL POSITION

The consolidated balance sheet at year end presented a sound financial position.

Working capital reached a new high totaling $204,952,873 — an increase of $12,039,991 compared with a year ago. This reflected a ratio of current assets to current liabilities of 4.1 to 1.

Stockholders' equity increased $16,886,521 over the prior year for a total of $196,851,940 at November 30, 1968.

The increases shown in accounts receivables, inventories and accounts payable are in line with the higher volume of business.

The principal source of funds for the company during the year continued to be the high level of cash income generated by operations. No long-term debt was added during the year.

The source and distribution of funds in 1968 were:

Funds were acquired from sources as follows:

Net income for year	$25,087,844
Provision for depreciation	7,007,667
Decrease in funds in escrow for construction	3,508,161
Increase in deferred liabilities	1,534,223
Decrease in customers' secured loans	507,232
Decrease in sundry investments	389,617
Net increase in capital stock transactions	352,751
Decrease in excess of investment over equity in subsidiaries, at acquisition	67,697
	$38,455,192

These funds were distributed as follows:

Expenditures for properties (net)	$15,591,710
Dividends paid on common and preferred stock	8,544,824
Decrease in long-term debt	2,165,522
Decrease in minority interests	103,895
Dividends of acquired company prior to pooling	9,250
	26,415,201
Increase in working capital	12,039,991
	$38,455,192

CAPITAL EXPENDITURES

Capital expenditures amounted to $15,591,710 in 1968—the highest for any year in INTERCO INCORPORATED history. Of this amount, $7,007,667 was provided by depreciation.

New footwear and apparel manufacturing plants were completed during the year as well as new and expanded warehouse distribution centers. The number of retail shoe units was increased and new department stores were opened.

Capital expenditures in 1969 are projected to be $12.0 million, of which depreciation is estimated to provide about $7.7 million.

LONG-TERM DEBT

The company's long-term debt at year end was $77,078,011. The principal debt is $50,000,000 on which the first annual payment of $1,875,000 is due in 1970. Also considered as debt is a long-term lease obligation of $8,095,000, payable in semi-annual installments through 1991.

The long-term debt of $13,500,000, acquired with Campus, is payable $750,000 annually through 1975, with $1,250,000 payable in 1976 through 1979 and the remainder payable in 1980.

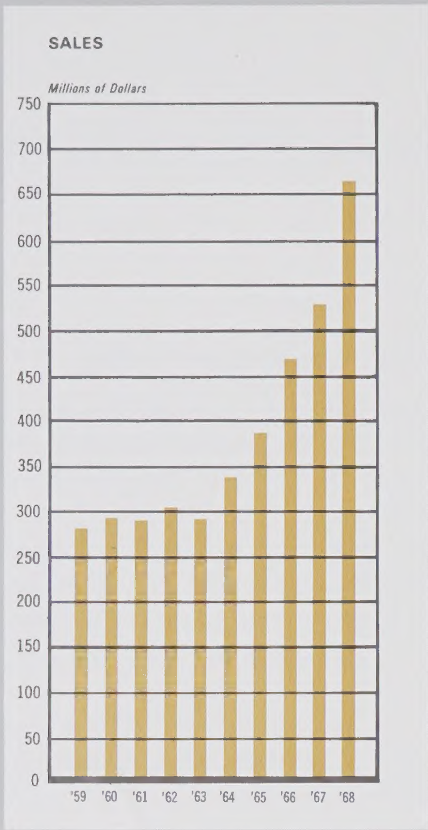
All other debt of $5,483,011 is payable in varying amounts through 1982.

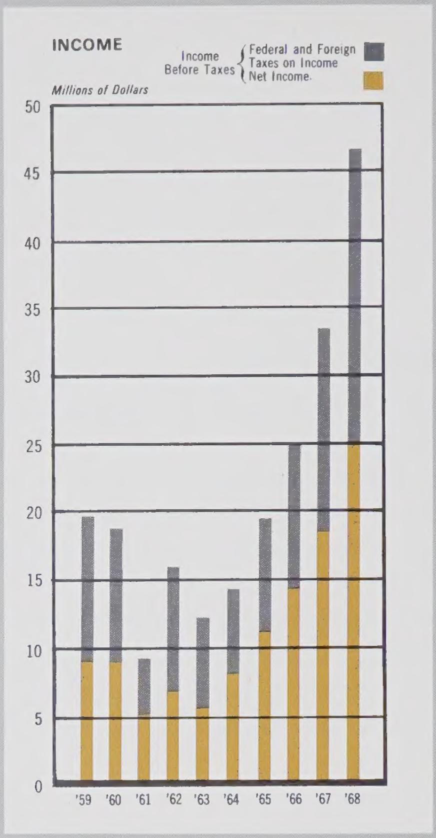
DIVIDENDS

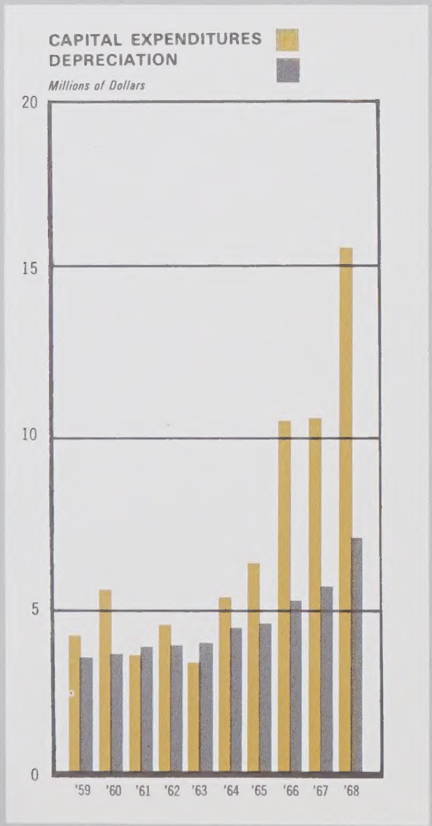
Four quarterly dividends of $0.22½ per share of common stock were paid in 1968.

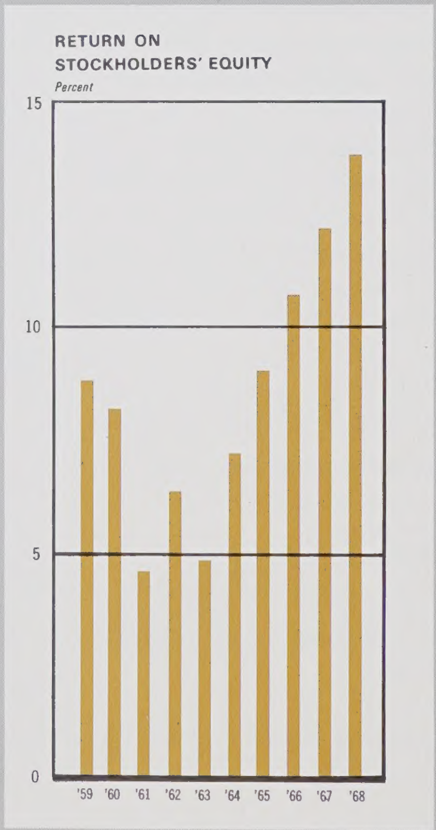
On December 2, 1968, the Board of Directors increased the common stock quarterly dividend to $0.25 per share effective with the January 5, 1969 payment. This is equal to an annual rate of $1.00 per share. The company has paid dividends to common stockholders for 56 continuous years, and the January 5 payment marked the 231st consecutive payment.

Holders of the Series A First Preferred Stock received $792,369 in dividends during the year, and $821,952 in dividends were paid to the Series B First Preferred stockholders.


SALES
Millions of Dollars
750
700
650
600
550
500
450
400
350
300
250
200
150
100
50
0
'59 '60 '61 '62 '63 '64 '65 '66 '67 '68


INCOME
Income Before Taxes
Federal and Foreign Taxes on Income
Net Income
Millions of Dollars
50
45
40
35
30
25
20
15
10
5
0
'59 '60 '61 '62 '63 '64 '65 '66 '67 '68


CAPITAL EXPENDITURES
DEPRECIATION
Millions of Dollars
20
15
10
5
0
'59 '60 '61 '62 '63 '64 '65 '66 '67 '68


RETURN ON
STOCKHOLDERS' EQUITY
Percent
15
10
5
0
'59 '60 '61 '62 '63 '64 '65 '66 '67 '68

Dividends amounting to $472,250 were paid on the Series C Second Preferred Stock since it was issued on April 12, 1968. This dividend was paid at the quarterly rate of $1.3125 per share.

Total dividends paid by INTERCO INCORPORATED on all classes of stock in 1968 amounted to $8,544,824.

CAPITAL STOCK

The stockholders approved an increase in the authorized number of shares of common stock from 10 million to 15 million shares at the March 11, 1968 annual meeting. The stockholders also approved a split of the common stock two shares for one, effective March 14, 1968. All references to common shares and per share figures in this annual report have been adjusted to reflect the stock split.

At year end there were 166,099 shares of Series A $100 per share cumulative convertible First Preferred Stock outstanding and 386,134 shares outstanding of Series B $40 per share cumulative convertible First Preferred Stock.

On April 12, 1968, 162,146 shares of $100 per share $5.25 cumulative convertible Series C, Second Preferred Stock were issued in exchange for all of the outstanding common stock of Campus Sweater & Sportswear Company. Each Series C preferred share is convertible into 3.0534 shares of common stock after March 31, 1970. The premium on the call price is $5.25 which declines at the rate of one-tenth for each year after April 1, 1975. Based on a schedule of increased earnings through 1969, the former stockholders of Campus could receive a maximum of 37,838 additional shares of $100 per share preferred stock.

At year end there were 15,100 stockholders of all classes of the company's stock compared with 14,700 stockholders a year ago.

NEW DIRECTOR ELECTED

On March 11, 1968, Samuel S. Kaufman, co-founder and President of Campus Sweater & Sportswear Company, was elected to the Board of Directors of INTERCO INCORPORATED. He was elected a Vice-President of the company on May 6, 1968.

OUR EMPLOYEES

The company welcomes the 4,100 employees of Campus Sweater & Sportswear Company who joined us during the year bringing the total number of employees to 38,200.

INTERCO INCORPORATED maintains a wide range of progressive employee benefit plans. During 1968 our various group insurance plans paid over $2.5 million in disability benefits covering employees and their dependents. In addition, payments to retired employees were in excess of $2.3 million, and life insurance proceeds of nearly $1.0 million were paid to beneficiaries of deceased employees.

New wage contracts which cover the largest single group of the company's employees were signed for a two-year period October 1, 1968 through September 30, 1970. These agreements provide for increased wages and added retirement benefits, as well as improved benefits in health insurance.

KEY EMPLOYEE STOCK OPTION PLAN

The stockholders approved a qualified stock option plan at the annual meeting on March 11, 1968 for key executive and administrative employees, and 300,000 shares of the company's common stock have been authorized for this purpose. At year end, 206,100 shares had been issued to 177 key executive and administrative employees at an average option price of $32.89 per share. The options will run for a period of five years and are exercisable in cumulative installments of twenty-five per cent each year after the first anniversary through the fourth anniversary date of the grant.

This continues the company's policy of encouraging its key executive and administrative employees to acquire a proprietary interest in the company.

CHARTS

The four charts in this section are based on figures as shown in the ten-year review on pages 22 and 23 which reflects acquired companies from the beginning of the year of affiliation with INTERCO INCORPORATED.

The Year in Review / *Operations*

Shown here is part of "... the aggressive program we have underway to expand our internal operations."

Expanded Campus Sweater & Sportswear Company's warehouse, Chester, South Carolina.

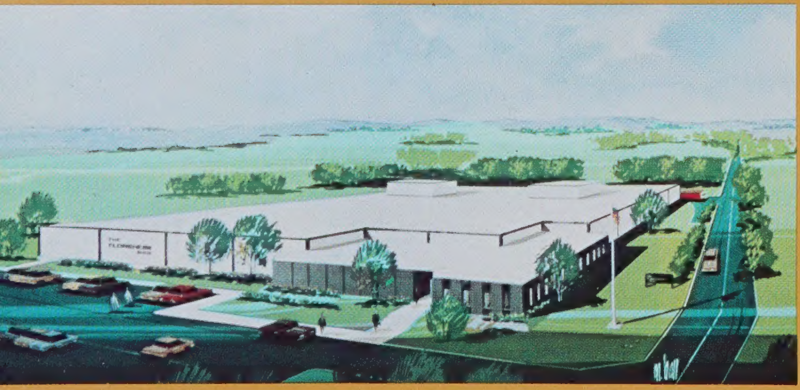
One of the two new Central Hardware Company stores in Indianapolis.

EXPANSION IN 1968

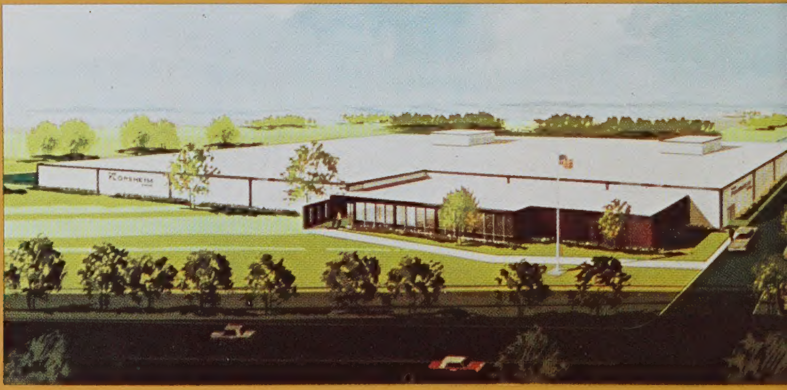
One of the ten beautiful retail shoe units of Mayfair Shoe Salons Limited, Quebec and Ontario, Canada—acquired in December 1968.

Cowden Manufacturing Company's warehouse under construction in Lexington, Kentucky.

New St. Louis warehouse and office of Senack Shoes, Inc., division of International Retail Shoe Company.



Florsheim's men's shoe factory in Cape Girardeau, Missouri, to commence production in February 1969.



Florsheim women's shoe factory, Mexico, Missouri, scheduled to open in June 1969.

International Shoe Company

Plant capacity of International Shoe Company was increased with the opening of a factory in Malvern, Arkansas, to produce women's shoes by Duo-Process, a new method of cement shoe construction. In Puerto Rico, construction of a new shoe manufacturing plant at Ciales was substantially completed. Production is scheduled to begin during the first quarter of 1969.

The new ultramodern distribution center at Jefferson City, Missouri, will realize maximum operating efficiencies early in 1970. Full automation of the facility is now scheduled for that time.

During the year, International's "Service to the Retailer" program was intensified by the appointment of three group managers—Vice-Presidents with marketing responsibilities—for men's, for women's and for juvenile shoes. Each sales division is headed by a sales manager with divisional responsibility for the sales and marketing of its line of shoes.

Management also established product development centers for each marketing group to keep pace with the rapid and frequent changes in today's fashion oriented market. Their function is to supply the sales divisions with a constant flow of information and new material and styling ideas, and to anticipate and develop fashion trends as they evolve. This new fashion program coupled with rigid quality control produces a product that has all the vital ingredients of a profitable operation for the retailer.

With such direct response to the problems of the retailer, International Shoe Company anticipates increases in both volume and profits in the years ahead.

International Retail Shoe Company

International Retail Shoe Company sales and earnings established record levels for the seventh year in succession.

During the year, a number of new stores and leased departments were opened principally in major shopping centers and leading department stores throughout the country. Leases have been signed for a significant number of new units to be opened in 1969, and more are anticipated before the end of the year.

The Senack division, which operates leased shoe departments, moved into larger office and warehouse facilities in St. Louis at midyear. This move has increased the efficiency of the division and will provide for future growth.

Modernization of facilities continues to receive top priority. With shopping having evolved into more of a recreational activity, it is important that units not only be strategically located, but also attractive in appearance.

Fashion has become an increasingly important factor in our economic life. International Retail Shoe Company's objective is to bring the newest fashion footwear to all age groups, and believes it will benefit considerably from the heightened, sophisticated tastes of the consumer.

Through a carefully planned program of opening larger units and closing smaller ones, the average volume per unit was again increased during the year and was the highest on record.

The division is enthusiastic about the future and anticipates steady progress.

Florsheim's luxurious men's shoe shop opened in 1968 in Oakwood Shopping Center, Gretna, Louisiana.

International Retail Shoe Company's beautiful new Paul's store in San Antonio, Texas—featuring, exclusively, high fashion women's footwear.

One of Florsheim's new Thayer McNeil women's Shoe Shops —this one in Oakbrook Shopping Center, Oakbrook, Illinois.

London Shoe Company Limited newly leased women's shoe department in Burlington Mall, Burlington, Ontario, Canada.

A section of Denny Stewart Limited new conveyorized shoe factory in Montreal.

Fitting room of International Shoe Company's new Paducah, Kentucky shoe plant which reached 5,000 pair daily production in 1968.

The Florsheim Shoe Company

The Florsheim Shoe Company sales volume and earnings in 1968 were the highest in its 76-year history, again emphasizing the consumer acceptance of Florsheim shoes, and the strong position it enjoys in the quality field.

The manufacture of Florsheim women's shoes, which achieved its highest sales volume and profits since they were introduced in 1930, contributed significantly to the excellent results for the year. To meet the increased demand for women's shoes, two new factories will commence operations early in 1969.

Florsheim continued its dominance in the men's quality field. Manufacturing facilities for men's shoes are being expanded by the construction of a second factory in Cape Girardeau, Missouri, to be completed in January 1969. An addition to the men's Chicago warehouse was completed in 1968, and new material handling methods will be installed to reduce order filling time. During the year, production in the company's downtown Chicago plant was consolidated with the other Chicago factories. The space vacated in this prime downtown location has been leased to prestige tenants.

Both men's and women's retail stores and departments continue to expand in all sections of the country. New stores have been opened not only in major shopping center locations, but also in downtown areas. The growth of Thayer McNeil stores reflects the high degree of leadership achieved by these stores in featuring high fashion women's shoes.

Julius Marlow Holdings Limited continues to maintain its position in Australia as the outstanding manufacturer of men's quality shoes.

The Florsheim Division looks forward to continued growth in 1969.

Savage Shoes Limited

Records were established in 1968 by the company's Canadian subsidiary—Savage Shoes Limited.

Sales and earnings for the year were the highest in the company's thirty-one year history. The high level of sales and earnings reflects the improved operating procedures, plant consolidations and expanded retail operations.

In 1968 the London Shoe Company Limited retail operation continued to play a major role in the growth of Savage Shoes Limited. Four leased departments, three in Quebec and one in Ontario, and three new stores were opened as planned, bringing the total number of company units to twenty-six.

Further retail expansion is planned with the acquisition at year end of Mayfair Shoe Salons Ltd., an important chain of ten high fashion women's shoe stores in Quebec and Ontario.

Growing consumer acceptance of women's high fashion footwear manufactured by Denny Stewart Limited, subsidiary of Savage Shoes Limited, necessitated expansion into a larger, modern plant in Montreal. Denny Stewart Limited which recently added the Florsheim women's line of quality footwear to their manufacturing operations, is making a substantial contribution to the earnings of the Canadian operation.

Further changes in the organizational structure, coupled with improved manufacturing, distribution and marketing programs, promise continued growth in 1969.

Shainberg's department store, Jackson, Tennessee, one of the forty-six stores in the southeastern section of the country.

Interior view of Kent's Pine Bluff, Arkansas store, the 49th and newest self-service store of Shainberg's Kent's chain.

Orange-coated Central Hardware expert advises customer in the new 70,000 square foot store in St. Charles, Missouri.

Recently opened Keith O'Brien's department store in Ontario, Oregon, part of the P. N. Hirsch chain.

Women's sportswear section—P. N. Hirsch department store in Salt Lake City.

Opening day at Central Hardware Company's new Alton, Illinois super-market hardware and lumber store.

P. N. Hirsch & Company

Sales and earnings of P. N. Hirsch & Company were the highest in the company's 38-year history.

During the year, a 50,000 square foot addition to the St. Louis warehouse was put into operation enabling the division to greatly improve service to its midwest stores. Higher sales in this group and lower store inventories significantly improved turnover and margins.

Also contributing to the overall improvement were the Hirsch division stores in the northwest, Hammel's in Mobile, Alabama and Thornton's in Abilene, Texas.

At year end there were 205 department stores in operation. Commitments have been made and negotiations are nearing completion for a number of new stores to be opened in 1969. These new stores, along with planned enlargement and relocation of certain existing stores, indicate further increases in 1969 operating results.

Sam Shainberg Company

The volume of the Sam Shainberg Company increased substantially in 1968. Now operating ninety-five department stores, the Memphis-based chain is committed to continued growth. Ten more stores are scheduled for opening in 1969, as part of the company's plan to open an additional ten to fifteen stores annually in the southern and southeast sections of the country.

The company has two divisions: forty-six Shainberg's Stores, compact junior department stores featuring merchandise for the family; and forty-nine Kent's Stores, self-service, supermarket type operations concentrating on clothing and related items for the family.

General offices and warehousing facilities presently located in a 250,000 square foot building constructed in 1961, have been expanded three times. In addition, the company is processing merchandise and providing store services in two other Memphis facilities. Plans are now being completed to consolidate all home office and warehouse functions in a new 450,000 square foot complex on a thirty-four acre site. Its design will be based on the most efficient methods of material handling and distribution to accommodate the company's long-range growth plans. Target date for occupancy is mid-1970.

Central Hardware Company

Expansion was the keynote at Central Hardware in 1968.

Four new supermarket type hardware and lumber stores were opened, bringing the number from six to ten—more than doubling Central's selling area. Additionally, plans are in progress for more stores in 1969.

In June, Central opened two beautiful 66,000 square foot stores in Indianapolis—its first move outside metropolitan St. Louis. These stores met with immediate customer approval and sales are in excess of the original projections. It is planned that Central will enjoy the same position of prominence in Indianapolis that it does in St. Louis.

The St. Louis market was expanded with the opening in November of new 70,000 square foot stores in St. Charles, Missouri, and Alton, Illinois.

Witte Hardware Company, Central's wholesale subsidiary, had a record year and continues to strengthen its wholesale hardware distribution. During the year, Witte expanded the number of independently owned XL stores to more than 250.

All of Central's stores continue to emphasize those items and services that have made it the "Do It Yourself" wonder that it is. In addition, Central has enlarged its Home-Modernization Department and is now capable not only of selling but installing "Everything from Scoops to Nuts."

With the continuing population growth and increases in home ownership, the growth potential for this company is unlimited.

Finishing band ends and stitching belt loops on dress up jeans in Cowden's Stanford, Kentucky plant—one of nine plants now in operation:

Headquarters of Campus Sweater & Sportswear Company, Cleveland, Ohio.

Cowden Manufacturing Company

Cowden Manufacturing Company made important additions to its manufacturing and distribution facilities during 1968.

A plant in Pikeville, Tennessee, which formerly produced sport shirts, was acquired and converted to the manufacture of garments for the Cowden line of work and play clothing. This production will enable the company to offer "matched sets" of work pants and shirts.

Pikeville raises to nine the number of plants operated by the company in Kentucky and Tennessee, employing over three thousand sewing machine operators. The company's two new plants in Greenville and Beaver Dam, Kentucky, continued to increase their employment and efficiency.

Plans were formulated early this year for the consolidation of three warehousing and shipping points in Kentucky. Engineering surveys pointed up benefits to be derived from consolidating these facilities into one large, modern, centrally located distribution center. Lexington, Kentucky, was selected as the site, and sufficient ground area was obtained adjacent to Cowden's general offices. The building with 230,000 square feet of floor space will be operating early in January, with an additional 120,000 square feet available when needed.

This modern distribution center will include the latest concepts in automation for storing and shipping garments, and together with the warehousing and shipping points in western Missouri and central California, will afford our customers unequaled nationwide service.

With the expansion of production facilities during the last few years and the modernization and upgrading of its distribution facilities, the Cowden Company is well prepared to take advantage of the opportunities that will be provided in 1969 and future years.

Campus Sweater & Sportswear Company

Campus Sweater & Sportswear Company, acquired in April, 1968 is America's largest manufacturer of men's and boys' sweaters and sportswear. Established in 1922, Campus today employs 4,100 people in fifteen plants throughout the southeastern and mid-western United States. General headquarters are in Cleveland, with styling and production offices in New York.

The principal products of the company are sweaters, knit shirts, dress and sport shirts, jackets, slacks, sport coats and suits, walk shorts and swimwear. The semiannual line of over 1,000 styles is sold through more than 7,500 independent retail outlets. The guiding philosophy of management is: well-made, up-to-the-minute styles, priced well within the budgets of the American consumer.

Campus continued to grow internally in many ways. Production capacity was increased in all divisions. Campus also added 230,000 square feet of automated warehouse to its South Carolina distribution center. The company moved smoothly into a third generation computer system for faster, more efficient processing of internal information. At year end the New York offices moved into new quarters which doubled their working space.

Guided by a keenly aggressive management team, to which four senior vice-presidents were appointed in 1968, Campus sees no ceiling to its growth and continued predominance in the flourishing men's sportswear industry.

Major Operating Groups

Footwear

INTERNATIONAL SHOE COMPANY
St. Louis, Missouri

THE FLORSHEIM SHOE COMPANY
Chicago, Illinois

INTERNATIONAL RETAIL SHOE COMPANY
St. Louis, Missouri

SAVAGE SHOES LIMITED
Preston, Ontario, Canada

Department Stores

P. N. HIRSCH & COMPANY
St. Louis, Missouri

SAM SHAINBERG COMPANY
Memphis, Tennessee

CENTRAL HARDWARE COMPANY
St. Louis, Missouri

Apparel

COWDEN MANUFACTURING COMPANY
Lexington, Kentucky

CAMPUS SWEATER & SPORTSWEAR COMPANY
Cleveland, Ohio

Principal Operating Facilities

Shoe Factories	46
Shoe Supply and Service Plants	14
Retail Shoe Stores and Departments	781
Department Stores	310
Apparel Factories	24
Finished Goods Warehouses	23
TOTAL	1,198

INTERCO
INCORPORATED

Consolidated Financial Statements

INTERCO INCORPORATED

CONSOLIDATED

Assets

November 30,	1968	1967
Current assets:		
Cash	$ 24,256,519	$ 31,296,586
Receivables, less allowance for cash discounts and doubtful accounts, $2,063,754 ($1,855,545 in 1967)	102,178,534	85,370,212
Inventories:		
Finished products and other merchandise	107,272,310	98,081,865
Raw materials and work in process	36,305,378	34,227,100
	143,577,688	132,308,965
Prepaid expenses	1,619,188	1,808,800
Total current assets	271,631,929	250,784,563
Other assets:		
Customers' secured loans, deferred maturities	1,807,223	2,314,455
Excess of investment over equity in consolidated subsidiaries, at acquisition	6,947,706	7,015,403
Sundry investments and other assets	2,934,694	3,324,311
Total other assets	11,689,623	12,654,169
Physical properties, at cost:		
Land	4,933,202	4,680,960
Funds in escrow for construction	87,800	3,595,961
Buildings and structures	62,984,697	59,171,451
Machinery and equipment	70,341,145	63,700,245
	138,346,844	131,148,617
Less accumulated depreciation	69,164,882	67,042,537
Net physical properties	69,181,962	64,106,080
	$352,503,514	$327,544,812

See accompanying notes to financial statements.

BALANCE SHEET

Liabilities and Stockholders' Equity

November 30,	1968	1967
Current liabilities:		
Notes payable to banks	$ 3,383,875	$ —
Current maturities of long-term debt	2,205,196	2,126,521
Accounts payable and accrued expenses	50,525,073	44,921,875
Federal and foreign income taxes	10,564,912	10,823,285
Total current liabilities	66,679,056	57,871,681
Other liabilities:		
Deferred Federal income taxes	2,583,062	2,017,533
Other deferred liabilities	5,765,109	4,796,415
Long-term debt, less current maturities	77,078,011	79,243,533
Minority interests in subsidiaries	3,546,336	3,650,231
Total other liabilities	88,972,518	89,707,712
Stockholders' equity:		
Preferred stock—without nominal or par value	48,269,860	48,821,200
Common stock—without nominal or par value, authorized 15,000,000 shares; issued 7,472,138 shares (7,422,106 shares in 1967)	56,041,035	55,665,795
Capital surplus	644,365	149,654
Retained earnings	96,534,531	80,000,761
	201,489,791	184,637,410
Less common stock in treasury 271,672 shares (273,672 shares in 1967), at cost	4,637,851	4,671,991
Total stockholders' equity	196,851,940	179,965,419
	$352,503,514	$327,544,812

Consolidated Income

Years Ended November 30,	1968	1967
Sales and other income:		
Net sales	$669,456,035	$617,760,006
Other income	5,013,870	4,628,509
	674,469,905	622,388,515
Deductions:		
Cost of sales	472,380,461	439,461,186
Selling, general and administrative expenses	150,560,132	141,115,097
Interest expense	4,766,617	5,032,326
	627,707,210	585,608,609
Income before Federal and foreign income taxes	46,762,695	36,779,906
Federal and foreign income taxes	21,077,317	15,607,969
	25,685,378	21,171,937
Net income of minority interests	597,534	620,519
Net income	$ 25,087,844	$ 20,551,418
Net income per share of common stock	$3.12	$2.51
Pro forma net income per common share—assuming full conversion of preferred stock and exercise of stock options	$2.63	$2.17

Consolidated Stockholders' Equity

YEAR ENDED NOVEMBER 30, 1968

	Preferred Stock	Common Stock Outstanding	Capital Surplus	Retained Earnings	Stockholders' Equity
Balance at beginning of year as adjusted for pooling of interests	$48,821,200	$50,993,804	$149,654	$80,000,761	$179,965,419
Net income				25,087,844	25,087,844
Dividends:					
Preferred stock				(2,086,571)	(2,086,571)
Common stock				(6,458,253)	(6,458,253)
Paid by pooled companies				(9,250)	(9,250)
Conversion of preferred stock into 30,832 shares of common stock	(629,260)	231,240	397,817		(203)
Issuance of 1,948 shares of Series B Preferred Stock	77,920		(21,241)		56,679
Issuance of 21,200 shares of common stock under stock option plans		178,140	118,135		296,275
Balance at end of year	$48,269,860	$51,403,184	$644,365	$96,534,531	$196,851,940

See accompanying notes to financial statements.

Notes to Financial Statements

Principles of Consolidation

All subsidiaries with a 51% or greater ownership are included in the consolidated financial statements.

During 1968, the company exchanged 162,146 shares of Series C second preferred stock for the capital stock of Campus Sweater & Sportswear Company. Additional shares, not to exceed 37,838 may be issued in 1970 contingent on earnings of Campus. The exchange has been accounted for as a pooling of interests, and accordingly the consolidated financial statements include the accounts of Campus Sweater & Sportswear Company for the years 1968 and 1967.

Inventories

Eighty-six percent of the inventories are priced at the lower of cost, first-in, first-out, or replacement market. The remainder of the inventories are priced at cost, last-in, first-out (LIFO), which is below replacement market.

Physical Properties and Depreciation

For financial accounting purposes, depreciation of physical properties, aggregating $7,007,667 in 1968 and $6,382,667 in 1967, is computed generally on a straight-line basis over the estimated useful life of each class of asset. For tax purposes, accelerated methods of depreciation are used, and the resultant deferred Federal income taxes provide a reserve for future taxes on income when depreciation exceeds the amount deductible for tax purposes.

Long-Term Debt and Dividend Restrictions

Long-term debt includes the following:

	1968	1967
4⅝% promissory installment notes due annually $1,875,000, 1970 through 1989, and balance in 1990	$50,000,000	$50,000,000
6% promissory installment notes payable $750,000 annually 1969-1975, $1,250,000 annually 1976-1979, balance due 1980	14,250,000	15,000,000
Obligations under long-term lease arrangements, payable in semi-annual installments through 1991	8,300,000	8,500,000
Other debt payable in varying amounts through 1982	6,733,207	7,870,054
	79,283,207	81,370,054
Less current maturities	2,205,196	2,126,521
	$77,078,011	$79,243,533

The 4⅝% note agreement provides that no payment be made for dividends unless consolidated working capital shall be at least $80,000,000. The agreement also restricts retained earnings of $43,810,400 as to the payment of cash dividends on capital stock. Obligations under long-term lease arrangements result from a transaction considered in substance to be an installment purchase. As such, the leased property has been included in physical properties.

Preferred Stock

	Shares	Amount
First preferred stock—577,060 shares authorized without nominal or par value:		
Series A—$4.75 cumulative, with stated and minimum liquidating value of $100 per share; convertible into 4.3478 shares of common.		
Outstanding at November 30, 1967	167,060	$16,706,000
Converted	(961)	(96,100)
Outstanding at November 30, 1968	166,099	16,609,900
Series B—$2.10 cumulative, with stated and minimum liquidating value of $40 per share; convertible into 2 shares of common.		
Outstanding at November 30, 1967	397,515	15,900,600
Issued	1,948	77,920
Converted	(13,329)	(533,160)
Outstanding at November 30, 1968	386,134	15,445,360
Second preferred stock—1,000,000 shares authorized without nominal or par value:		
Series C—$5.25 cumulative, with stated and minimum liquidating value of $100 per share; convertible into 3.0534 shares of common.		
Outstanding at November 30, 1968	162,146	16,214,600
Total stated value of preferred stock at November 30, 1968		$48,269,860

Common Stock

At November 30, 1968, 2,534,974 shares of common stock were reserved for conversion of preferred stock and exercise of stock options.

At the beginning of the year, stock options were outstanding for 316,700 shares of common stock at an average price of $25.38. During the year options for 9,500 shares were granted at an average price of $46.22, options for 21,200 shares at an average price of $13.98 were exercised, and options for 6,200 shares were cancelled. At November 30, 1968, options were outstanding for 298,800 shares of common stock at an average price of $26.71. At November 30, 1968, preferred stock options were outstanding equivalent on a converted basis to 32,471 shares of common stock at an average price of $23.92.

Commitments

The company and its subsidiaries have pension plans covering substantially all of its employees. The company's policy with respect to principal pension plans is to fund pension costs accrued. The total pension expense for the year was $4,600,000 which includes, as to certain of the plans, amortization of prior service costs over periods ranging from 20 to 30 years. The actuarially computed value of vested benefits as of latest valuation dates of the plans exceed the total of the pension fund and balance sheet accruals by approximately $3,750,000.

Excluding rental payments on long-term leases capitalized, minimum annual rentals on properties leased for terms of more than five years approximate $8,000,000.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
901 Washington Avenue, St. Louis, Missouri 63101

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INTERCO INCORPORATED:

We have examined the consolidated balance sheet of INTERCO INCORPORATED and subsidiaries as of November 30, 1968 and the related statements of income and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at November 30, 1968 and the results of their operations and changes in stockholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

St. Louis, Missouri
January 6, 1969

Peat, Marwick, Mitchell & Co.

INTERCO

INCORPORATED

TEN YEAR

YEARS ENDED

	1968	1967	1966
FOR THE YEAR			
Net Sales	$669,456	$536,187	$469,132
Income Before Taxes	46,763	33,360	25,068
Federal and Foreign Income Taxes	21,077	14,112	10,035
Net Income (3)	25,088	18,627	14,598
Dividends Paid on Common Stock	6,458	5,685	4,957
Dividends Paid on Preferred Stock	2,087	991	—
Percentage of Net Income to Sales	3.7%	3.5%	3.1%
AT YEAR END			
Current Assets	$271,632	$215,240	$204,958
Current Liabilities	66,679	47,181	58,874
Working Capital	204,953	168,059	146,084
Physical Properties (Net)	69,182	59,409	48,931
Other Assets and Liabilities (Net)	3,341	5,571	8,665
Long-term Debt	77,078	64,994	57,833
Minority Interests in Subsidiaries	3,546	3,650	3,323
Stockholders' Equity	$196,852	$164,395	$142,524
Shares of Common Stock Outstanding	7,200,466	7,148,434	7,065,478
PER SHARE OF COMMON STOCK			
Net Income (4)	$ 3.12	$ 2.39	$ 1.95
Pro Forma Net Income—assuming full conversion of preferred stock and exercise of stock options (4)	2.63	2.11	—
Dividends	0.90	0.80	0.70

(1) Figures for companies acquired on a pooling of interests basis have been included above from the beginning of the fiscal year of their affiliation with INTERCO INCORPORATED. Shown below are the comparative sales and earnings for the years 1964 through 1967 which have been restated to include pooled companies for years prior to their affiliation:

	(IN THOUSANDS) Net Sales	Net Earnings	Per Share of Common Stock (4)	Pro Forma Net Earnings Per Share (4)
1967	$617,760	$20,551	$2.51	$2.17
1966	591,794	16,976	2.02	1.80
1965	532,154	15,327	1.77	1.61
1964	475,974	12,608	1.43	1.36

CONSOLIDATED FINANCIAL REVIEW

OVEMBER 30

1965	1964	1963	1962	1961	1960	1959
(DOLLARS IN THOUSANDS)						
$391,877	$345,448	$295,615	$303,182	$294,275	$296,470	$283,261
19,545	14,397	12,302	16,008	9,369	18,855	19,400
8,100	5,518	6,528	8,616	4,081	10,101	10,132
10,879	8,441	5,493	7,071	5,191	8,867	9,207
4,292	4,118	4,004	4,050	6,116	6,113	6,050
—	—	—	—	—	—	—
2.8%	2.4%	1.9%	2.3%	1.8%	3.0%	3.3%
(DOLLARS IN THOUSANDS)						
$170,815	$162,045	$148,819	$149,007	$146,793	$149,398	$143,248
39,803	35,249	29,981	30,675	27,952	28,800	42,291
131,012	126,796	118,838	118,332	118,841	120,598	100,957
42,614	41,019	40,318	40,976	40,247	40,538	38,588
8,807	7,767	6,827	8,053	8,984	9,610	10,175
53,645	52,626	52,229	54,571	56,820	58,585	40,351
3,233	3,304	2,584	1,481	1,438	1,395	1,453
$125,555	$119,652	$111,170	$111,309	$109,814	$110,766	$107,916
,149,748	7,170,010	6,562,554	6,682,940	6,794,444	6,796,044	6,790,444
(IN DOLLARS)						
$ 1.52	$ 1.22	$ 0.82	$ 1.05	$ 0.76	$ 1.31	$ 1.37
—	—	—	—	—	—	—
0.60	0.60	0.60	0.60	0.90	0.90	0.90

(2) Common shares and per share figures reflect two-for-one stock split, effective March 14, 1968.

(3) After adjustments for minority interests.

(4) Based on average shares.

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  Chairman of the Board
  Glore Forgan, Wm. R. Staats Inc.
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DUANE L. STARR, Assistant Treasurer
JOHN R. METCALF, Assistant Comptroller

General Counsel

RICHARD H. ELY

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1509 Washington Avenue, St. Louis, Missouri 63166

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